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C O N F I D E N T I A L SECTION 01 OF 02 RPO DUBAI 000503

SIPDIS

E.O. 12958: DECL: 11/19/2019

TAGS: [ECON](#) [IR](#) [PGOV](#) [PREL](#)

SUBJECT: IRAN'S EXECUTIVE-LEGISLATIVE SUBSIDIES TUG OF WAR CONTINUES

REF: RPO DUBAI 468

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CLASSIFIED BY: Alan Eyre, Director, Iran Regional Presence
Office, DoS.

REASON: 1.4 (b), (d)

¶1. (C) SUMMARY: Passage of the targeted subsidy reform bill has stalled in the Majlis over President Ahmadinejad's demand his administration have full control over how subsidy savings are spent. The Majlis and Ahmadinejad have been unable to come to a compromise after an impasse in the Majlis and Ahmadinejad's threat to withdraw the bill. The matter has been referred to a joint Majlis-Executive committee to break the deadlock. Ahmadinejad seems determined to control billions of dollars in potential savings as part of a broader strategy to extend his authority. END SUMMARY.

ROUND ONE - SUBSIDIES MUST END

¶2. (C) When the first part (12 articles) of the subsidy reform bill was introduced in the Majlis, Ahmadinejad tried to influence the debate, repeatedly emphasizing the need to employ free-market principles to fix the Iranian economy (reftel). Mixing a populist message about how the rich benefitted most from subsidies while delivering the tough news that Iranians need to be weaned off government dependency, he argued forcefully for the end of subsidies in numerous public appearances. The Supreme Leader, who had previously endorsed the need to reform consumption, concurred and endorsed subsidy reform in a mid-October speech, and as a result, MPs approved the plan to end subsidies over five years (NOTE: Subsidy removal is expected to generate USD 20 billion in savings in the first year with an additional USD 20 billion in each subsequent year, ultimately leading to an annual USD 100 billion savings by Year Five. END NOTE.)

BAIT AND SWITCH EXPOSES AHMADINEJAD'S TRUE INTENT

¶3. (C) As discussion turned to the second half of the bill, Ahmadinejad tried to re-frame the subsidy reform debate. The government, he argued in a one-hour television interview November 11, "is not after eliminating the subsidies...our goal is proper allocation of the subsidies." Having won the argument

to end subsidies, he now asserted the government's right to determine how to spend the savings. Ahmadinejad refused to accept the possibility of Majlis oversight.

¶4. (C) IRPO contacts argued that Ahmadinejad is driven ideologically by redistribution but tactically by the desire to control resources. In a recent conversation, one Iranian economics professor based at the American University in Sharjah argued that for Ahmadinejad, "the meat is in the cash payments" and ceding control of some subsidy funds is an unfortunate consequence of reforming the system. Our contact likened the situation to the gasoline ration program introduced two years ago. The program was meant to limit gasoline consumption, and did so successfully, but also allowed the Ahmadinejad government to hand out smart cards to loyalists in the IRGC and Basij who earn a profit from the sale of subsidized gasoline on the secondary market. Similarly with subsidy reform, our contact postulated Ahmadinejad will reward loyalists with extra cash in the form of extra subsidy cash smart cards. Indeed, an MP loyal to Ahmadinejad and a member of the Majlis Planning and Budget Commission told Fars News November 16 that the payment of subsidies to Iranian citizens would be in the form of credit cards while the government announced it was opening up 36 million bank accounts to pay cash. Both possibilities would give Ahmadinejad significant control over how and to whom funds are distributed.

AHMADINEJAD BULLIES PARLIAMENT...

¶5. (C) Since the Majlis has taken up the debate on how subsidy savings will be distributed, Ahmadinejad has tried to apply increasing amounts of pressure on MPs to cede any authority over the funds to him. Debate on the second part of the subsidy

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reform bill started November 1. Majlis extended payments to all Iranians (Ahmadinejad had proposed the bottom 70 percent) and approved Article 13 requiring the government to request funds to make cash payments through the annual budget process. Since then, Ahmadinejad has made four visits to the Majlis (one unannounced), submitted a letter withdrawing the bill, and scolded MPs publically for demanding oversight. As a result, they approved a subsequent article allowing the government to determine how to spend funds. With the government refusing to provide any details as to how the funds will be distributed or allowing the Majlis any oversight, MPs refused to repeal Article 13 and the government refused to move forward with the article included in the final text.

...BUT THEY PUSH BACK

¶6. (C) Since then, MPs have only hardened their position. Majlis Speaker Ali Larajani, in an interview with state media November 16 said he worried that "there is no way to re-assess the target orientation of subsidies after ratification by MPs." Hinting at the political power play underway, Larajani also refused to give Ahmadinejad any credit for how far the bill had come stating the MPs had approved all the articles at the Supreme Leader's request. Additionally, he said whatever form subsidy reform would take depends largely on what the Supreme Leader decides.

¶7. (C) The Majlis and the administration set up a joint committee November 15 to try and break the impasse. Ahmadinejad

attended a session of the six-person committee November 18 and admonished MPs for making any changes to the subsidy reform bill and urged them to give his government full control. What emerged was an agreement to form an "independent body" that will administer the program. Its membership remains unclear. MPs are expected to balk if they have no membership and the government is expected to do the same if MPs are included.

18. (C) COMMENT: In the larger context, Ahmadinejad's demand for authority over the subsidy savings (which currently compromise one-third of the country's USD 300 billion annual revenue) reflects other recent moves to further centralize his government's control over state functions. If Ahmadinejad and his administration do succeed in gaining sole authority over the expenditure of subsidies, it will represent a significant increase in his agglomeration of power. But this debate also exemplifies the increasingly bitter relations between Ahmadinejad and the Majlis, especially Larijani. END COMMENT.
EYREA